

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

DODE-00 PA-01 USIA-06 PRS-01 FEA-01 FPC-01 /079 W

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R 131900Z FEB 75

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 9909

INFO AMEMBASSY SANTIAGO

AMEMBASSY ASUNCION

AMEMBASSY MONTEVIDEO

LIMITED OFFICIAL USE BUENOS AIRES 1038

E.O. 11652: N/A

TAGS: EFIN, AR

SUBJECT: INFLATION GOING UP

REF BA 836

SUMMARY. COST OF LIVING INDEX (COL) HAS ACCELERATED RAPIDLY IN RECENT MONTHS AND PROSPECTS ARE FOR FURTHER HIGH INCREASES THIS YEAR. INFLATION AND ITS CONSEQUENCES RAPIDLY BECOMING MAJOR GOA CONCERN. END SUMMARY

1. COL INCREASE WAS RECORD 8.5 PERCENT IN JAN 75 BRINGING YEARLY RISE TO 52.9 PERCENT (JAN 74 - JAN 75). SEASONALLY ADJUSTED COL INDEX HAS NOW INCREASED 17 PERCENT SINCE LAST WAGE INCREASE IMPLEMENTED NOV 1 (NOV 3.3 PERCENT, DEC 5.2 PERCENT, JAN 8.5 PERCENT). IF CURRENT TRENDS CONTINUE, 1975 COL INCREASE COULD REACH 60 PERCENT OR MORE, COMPARED WITH 40.1 PERCENT IN 1974.

2. IN 1975, AS IN 1974, REAL INFLATION IN ARGENTINA WILL BE CONSIDERABLY ABOVE OFFICIAL COL INDEX. INDEX ITSELF NOT VERY LIMITED OFFICIAL USE

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ACCURATE MEASURE REAL PRICE CONDITIONS IN MARKETPLACE DUE

EXTENSIVE BLACK MARKET ACTIVITY. MOREOVER, PRICE INCREASES FOR VIRTUALLY ALL ITEMS NOT IN CONSUMER BASKET TEND TO BE MORE RAPID BECAUSE THEY NOT SO CLOSELY CONTROLLED BY GOVERNMENT.

3. SEVERAL FACTORS ARE LIKELY TO RAISE INFLATION LEVELS IN SHORT RUN. PUBLIC SERVICE TARIFF INCREASES, ESPECIALLY FUELS, (BA 836) WILL AFFECT GENERAL PRICE LEVELS. WAGE INCREASES OVER NEXT SEVERAL MONTHS LIKELY TO BE SUBSTANTIAL. RESULTS OF PRIVATE COLLECTIVE BARGAINING SESSIONS TO BE IMPLEMENTED JUNE 1, AND CGT HAS REQUESTED EMERGENCY WAGE INCREASE BEFORE THEN. MANY COMPANIES NEED PRICE INCREASES NOW TO RAISE PROFITS AND WILL REQUIRE FURTHER INCREASES TO OFFSET THESE HIGHER LABOR COSTS. IF GOA DEVALUES IN NEAR FUTURE, STILL ANOTHER INFLATIONARY FACTOR IS ADDED.

4. SOME OBSERVERS ATTRIBUTE INFLATION OUTBREAK TO RECENTLY INSTITUTED PRICE FLEXIBILITY PROGRAM. THIS VIEW TOO NARROW SINCE ADDITIONAL FLEXIBILITY LONG OVERDUE TO IMPROVE SITUATION OF PRIVATE SECTOR AND PROMOTE ECONOMIC ACTIVITY. MOREOVER, MOST PRICES WHICH LIBERALIZED HAD LITTLE DIRECT IMPACT ON COL INDEX. IN OUR OPINION, REAL CAUSES OF INFLATION, WHETHER REPRESSED AS IN PAST UNDER SOCIAL PACT OR CURRENT MORE OPEN VARIETY, ARE UNHEALTHY CONDITIONS ALLOWED TO DEVELOP IN RECENT PAST INCLUDING SWOLLEN FISCAL DEFICIT, EXCESSIVE MONETARY EXPANSION, AND FAILURE TO STIMULATE CAPITAL FORMATION AND PRODUCTIVITY.

5. WHATEVER, CAUSES, INFLATION AT CURRENT LEVELS CONSTITUTES MAJOR PROBLEM FOR GOA WHICH COMMITTED TO INCOME REDISTRIBUTION PROGRAM IN FAVOR WORKING CLASS. CGT AND ORGANIZED LABOR ALREADY DISSATISFIED WITH ESCALATING PRICES AND WIDESPREAD APPREHENSION EXISTS OVER INFLATION. GOMEZ MORALES ECONOMIC TEAM HAS YET TO INSPIRE CONFIDENCE IT HAS SOLUTION FOR REDUCING INFLATION IN SHORT RUN, AND COULD BE FORCED TO TIGHTEN UP ON WAGE PRICE CONTROLS. OVER LONGER TERM, CURRENT GOA EFFORTS TO REDUCE FISCAL DEFICIT, WHILE RAISING OUTPUT AND INVESTMENT IN CLIMATE GREATER FLEXIBILITY, SHOULD HELP REDUCE INFLATION AND PROMOTE STABLE GROWTH.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INFLATION, COST OF LIVING, ECONOMIC DATA  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 13 FEB 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** woolflhd  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
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**Disposition Reason:**  
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**Film Number:** D750053-0328  
**From:** BUENOS AIRES  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** INFLATION GOING UP  
**TAGS:** EFIN, ECON, AR  
**To:** STATE  
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